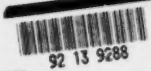
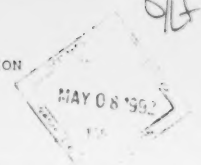


O 30884
Q-35813

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549



(Mark One)

[X] **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 1992

RG2-2264

OR

[ ] **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 811-6328

SBM Certificate Company
(Exact name of registrant as specified in its charter)

Minnesota	41-1671595
(State or other jurisdiction of incorporation of organization)	(IRS Employer Identification Number)

8400 Normandale Lake Boulevard, Suite 1150, Minneapolis, Minnesota 55437
(Address of principal executive offices)
(Zip Code)

(612) 835-0097
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No ___

Number of shares of Common Stock outstanding at May 1, 1992 250,000

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH A REDUCED DISCLOSURE FORMAT.

PROCESSED BY
MAY 12 1992
Microfilmed by
Q-Data Corp. - St. Petersburg, FL

SBM Certificate Company

Index

	Page (s)
Part I - Financial Information	
Item 1. Financial Statements (Unaudited)	
Balance Sheets	1
Statements of Income	2
Statements of Cash Flows	3
Note to Financial Statements	4
Item 2. Management's Analysis of Results of Operations	5

Part I. Financial Information
Item I. Financial Statements

SBM Certificate Company
Condensed Balance Sheets

Assets	March 31 1992 (unaudited)	December 31 1991
Qualified Assets :		
Cash	$302,312	$314,479
Certificates of deposit	396,483	5,000
Dividends and Interest Receivable	495,763	484,437
Refundable Income Taxes	254,000	190,000
Investments in unaffiliated issuers :		
Securities:		
Commercial paper	6,621,558	7,095,321
Debt securities	46,529,172	46,734,330
Marketable equity securities	801,780	796,648
First mortgage loans,net of allowance for loan losses of $143,710 and $150,000 respectively	10,972,475	11,061,491
Certificate loans, secured by applicable certificate reserves	406,108	434,602
Real estate limited partnership	525,000	525,000
Contract for deed receivable	72,349	73,586
Cash surrender value of life insurance	257,441	254,606
Land,Building and Improvements,at cost less accumulated depreciation of $740,107 and $725,291 respectively	987,799	1,002,616
Total Qualified assets	68,622,240	68,972,116
Other Assets :		
Deferred acquisition costs	395,370	375,697
Other	96,091	16,117
	$69,113,701	$69,363,930
Liabilities and Stockholder's Equity		
Certificate reserves	$66,883,838	$67,159,074
Accounts Payable and Other Liabilities	139,163	51,720
Deferred income taxes	313,419	313,419
Total Liabilities	67,336,420	67,524,213
Common Stock	250,000	250,000
Additional Paid in Capital	1,990,006	1,990,006
Unrealized Depreciation on Marketable Equity Securities	(336,889)	(342,021)
Deficit	(125,836)	(58,268)
Total Stockholder's Equity	1,777,281	1,839,717
	$69,113,701	$69,363,930

The balance sheet at December 31,1991 has been taken from the audited financial statements at that date, and condensed.

See note to condensed financial statements.

SBM Certificate Company
Statements of Income

	Three Months Ended	
	March 31 1992 (unaudited)	March 31 1991 (unaudited)
Investment and Service Fee Income :		
Interest income from investments :		
Bonds and notes	$987,861	$1,054,271
First mortgage loans	376,939	293,373
Other - principally on certificate loans and certificates of deposit	13,689	12,587
Dividends	16,147	15,340
Other service fees	1,028	13,451
Rental income	79,543	0
Total investment and service fee income	1,475,207	1,389,022
Investment expenses	208,276	108,989
Amortization of deferred acquisition costs and renewal commissions	128,625	149,206
Provision for certificate reserves	1,268,874	1,314,412
Investment loss before income tax credit	(130,568)	(183,585)
Income tax credit	(63,000)	(81,000)
Investment loss - net	(67,568)	(102,585)
Realized gains on investments	0	139,355
Income tax on realized gains	0	47,000
Net loss	($67,568)	($10,230)

See note to condensed financial statements.

SBM Certificate Company
Condensed Statements of Cash Flows
(unaudited)

	Three Months Ended	
	March 31 1992	March 31 1991
Net Cash Provided by Operating Activities:	$666,784	$1,396,217
Cash Flows From Investing Activities:		
Proceeds from investments sold and matured	1,964,180	235,320
Cost of investments purchased	(2,158,596)	(17,867,282)
Sales of short-term investments, net	473,763	15,156,309
Loan principal payments	665,957	186,330
Loans funded	(8,187)	(10,792)
Net cash provided (used) by investing activities	937,117	(2,300,115)
Cash Flows From Financing Activities:		
Payments to face amount certificate holders	(9,469,348)	(3,634,124)
Reserve payments from face amount certificate holders	7,853,280	4,422,061
Net cash provided (used) by financing activities	(1,616,068)	787,937
Net decrease in cash and cash equivalents	(12,167)	(115,961)
Cash and cash equivalents at beginning of period	314,479	250,000
Cash and cash equivalents at end of period	$302,312	$134,039

See note to condensed financial statements.

SBM Certificate Company
Note to Condensed Financial Statements

(unaudited)

Basis of Presentation

SBM Certificate Company (the Company), a wholly owned subsidiary of SBM Company (formerly State Bond and Mortgage Company)(SBM), was incorporated in 1990 for the purpose of acquiring the face amount certificate business of SBM. Prior to transfer of the face amount certificate business to the Company, SBM had maintained a distinct face amount certificate business segment. Pursuant to the terms of an agreement of assignment and assumption, effective January 1, 1991, SBM transferred the assets constituting the face amount certificate business segment of SBM to the Company and the Company has assumed all of SBM's liabilities related to the face amount certificate business.

The condensed balance sheet as of March 31, 1992 and the statements of income and cash flows for the three month periods ended March 31, 1992 and 1991 have been prepared by the Company without audit. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial positions, results of operations and cash flows at March 31, 1992 and for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these financial statements be read in conjunction with the Company's financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1991.

Item II. Management's Analysis of Results of Operations

SBM Certificate Company

SBM Certificate Company's results of operations are derived from the margin between earnings on investments and amounts paid or credited to certificate obligations less management and service fees and custodial expenses (primarily personnel and overhead expenses of SBM Company (SBM) allocated to the Company), investment costs, and loan and real estate loss provisions.

Net investment loss for the three months ended March 31, 1992 was <$67,568> compared to <$102,585> for the same period in 1991. The decrease in net investment loss is the result of improved 1992 investment spreads as discussed below. The 1991 results include realized investment gains net of income tax of $92,355 in the first quarter of 1991. The investment loss for each period is due to insufficient spreads between income earned on investment assets and rates paid on certificate liabilities.

To improve its investment spreads and as a result of the decreasing interest rate environment, in November 1991 and January 1992 the Company lowered the interest rates offered on its Series 503 Certificates by 40 and 50 basis points, respectively. Management is closely monitoring these new rates against competitive products, mainly bank certificates of deposit. Further interest rate adjustments on new Certificates will be made as deemed necessary. The Company believes that, given current market conditions, and assuming relatively level rates of interest, the net interest margin should increase as outstanding certificates paying interest at higher rates mature and are renewed at the prevailing lower rate of interest, and as new Certificates are sold at lower rates of interest. The Company continues to review its asset/liability management strategies to maximize the spreads between investment income and interest expense.

It is expected that during the first half of 1992 the Company's margin between income earned on its investment assets and the interest paid on its certificate obligations will continue to be insufficient to cover fully all operating expenses, and that consequently the Company will incur operating losses until the spread between its investments and certificate liabilities is increased.

The Company is the owner of a building which is used by SBM and its affiliates. Prior to 1992, SBM and its affiliates paid or absorbed the expenses associated with the building, including taxes, depreciation, utilities, and maintenance costs in lieu of any rent payments to the Company. In 1991, SBM and its affiliates effectively paid rent to the Company by reducing the management fee payable by the Company to SBM by $108,550. Effective January 1, 1992, SBM and the Company entered into a lease agreement regarding the portion of the building occupied by SBM and its affiliates. The Company receives rental income and pays expenses associated with the building as set forth in the lease agreement.

The Company has no employees itself, but is managed and operated by employees of SBM pursuant to a management agreement with SBM. Most general and administrative expenses represent an allocation of salaries, benefits, and operating costs of SBM to the Company based on the amount of management services provided to the Company. This allocation has decreased in 1992 as a result of SBM's employees spending less time on the administrative aspects of the certificate business.

SBM is a bank holding company, and as such the Federal Reserve has certain regulatory authority over SBM and its subsidiaries. In addition, the Minnesota Department of Commerce has certain regulatory authority over the Company. SBM has been contacted by both the Federal Reserve and the Minnesota Department of Commerce regarding capital adequacy and other matters affecting SBM and, in certain respects, the Company. In accordance with these contacts, the Company's objective is to achieve a 5% capital level. SBM is considering various financing alternatives. There can be no assurance as to the timing or source of funding for such increases in capital.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SBM CERTIFICATE COMPANY

Date 5-5-92

By: Edward L. Zeman

Edward L. Zeman

Its: Vice President and Chief Financial Officer